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Gray Drug Stores, Inc.

Annual Report to Stockholders
for the Fiscal Year
ended June 30, 1947

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE - 2400 SUPERIOR AVENUE
CLEVELAND, OHIO

BRANCH OFFICE AND WAREHOUSE - 738 BELLEFONTE AVENUE
LOCK HAVEN, PENNA.

LABORATORY - 1707 CRAWFORD ROAD
CLEVELAND, OHIO

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Board of Directors

C. W. EVANS
J. G. GOSLING
HENRY GRAY
MORTIMER JACOBS
THOMAS H. JONES
CHARLES B. MERRILL
M. M. NEUBAUER
ADOLPH WEINBERGER
L. J. WOLF

Officers

ADOLPH WEINBERGER ..... *President and Treasurer*
HENRY GRAY ..... *Vice-President*
MORTIMER JACOBS ..... *Vice-President*
MILTON NEUBAUER ..... *Vice-President*
C. W. EVANS ..... *Vice-President, Secretary and Assistant Treasurer*
L. C. DOUGLASS ..... *Controller*
JOSEPH VALINS ..... *Assistant Secretary*

Registrar and Transfer Agent

THE CLEVELAND TRUST COMPANY

Auditors

ERNST & ERNST

Counsel

JONES, DAY, COCKLEY & REAVIS

GRAY DRUG STORES, INC.

Cleveland, Ohio
September 12, 1947

To the Shareholders of Gray Drug Stores, Inc.:

The annual report of Gray Drug Stores, Inc. covering the operations of the Company and its subsidiaries for the fiscal year ended June 30, 1947 is submitted herewith. The consolidated balance sheet and consolidated profit and loss and surplus statements have been examined by Ernst & Ernst, certified public accountants, and their opinion is attached.

Net profits for the last fiscal year after deducting all charges, including provisions for depreciation and for all federal and other taxes, were equivalent to $2.71 a share on the 138,500 shares of Common Stock now outstanding. This compares with $2.56 a share of Common Stock for the fiscal year ended June 30, 1946. A dividend of 32½ cents was paid on each of the following dates: October 1, 1946, January 2, 1947, April 1, 1947 and July 1, 1947. Provision for federal taxes on income for the last fiscal year after deducting refunds arising from the carry-back of unused excess profits credit and other adjustments was $212,784.08 as compared with $297,870.80 for the preceding fiscal year. The reserve for general contingencies amounted to $148,000.00 on June 30, 1947, an increase of $12,000.00 during the fiscal year.

To simplify the Company's operations and accounting, the Board of Directors approved Plans of Liquidation whereby three subsidiaries, Gray Drug Stores, Inc. of Columbus, Gray Drug Stores, Inc. of Akron and The Gray-Leadley Company, Inc. (A subsidiary of Gray Drug Stores, Inc. of Pennsylvania) were liquidated as of June 30, 1947. Since that date, operations of these subsidiaries have been conducted by the Company and Gray Drug Stores, Inc. of Pennsylvania.

If you should be unable to attend the annual meeting of shareholders on September 23, 1947, we urge you to fill in, sign and return promptly the enclosed proxy so that your stock may be voted at that meeting.

Very truly yours,

Adolph Weinberger
President

ACCOUNTANTS' REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and its subsidiaries as of June 30, 1947, and the consolidated statements of profit and loss and surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of Gray Drug Stores, Inc., and its subsidiaries at June 30, 1947, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
September 9, 1947

CONSOLIDATED

GRAY DRUG STORES, I

June 3

ASSETS

CURRENT ASSETS			
Cash on hand and demand deposits			$ 755,423.90
Trade accounts receivable			269,337.87
Tax stamps—state			48,825.24
Inventories—priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$1,828,609.44	
At warehouse		886,111.95	
At laboratory		26,538.00	
		$2,741,259.39	
In transit		59,226.31	2,800,485.70
TOTAL CURRENT ASSETS			$3,874,072.71
OTHER ASSETS			
United States Treasury Bonds - at cost - Note A		$ 154,500.00	
Receivables for capital stock subscribed for by officers and employee		66,500.00	
Cash surrender value of life insurance		53,917.89	
Refundable federal taxes on income of prior years—estimated		37,159.71	
Miscellaneous receivables, deposits, etc.		16,018.24	328,095.84
FIXED ASSETS—at cost, less reserves for depreciation and amortization			
Land		$ 46,091.10	
Buildings	$ 45,825.51		
Furniture and fixtures, etc.	1,541,474.21		
Leasehold and leasehold improvements	687,301.36		
	$ 2,274,601.08		
Less reserves for depreciation and amortization	1,102,498.91	1,172,102.17	1,218,193.27
PATENTS AND TRADE-MARKS			1.00
DEFERRED CHARGES			
Prepaid insurance		$ 36,260.73	
Taxes		22,550.92	
Other		22,873.69	81,685.34
			$5,502,048.16

BALANCE SHEET

NC., AND SUBSIDIARIES

30, 1947

LIABILITIES, CAPITAL STOCK, AND SURPLUS

CURRENT LIABILITIES			
Note payable to bank—portion due within one year			$ 72,000.00
Accounts payable:			
Trade accounts		$ 606,946.65	
Salaries, wages, and commissions		114,462.57	
Pay roll taxes and taxes withheld from employees		57,963.61	
Dividend payable		45,014.17	824,387.00
Accrued:			
Taxes (other than taxes on income)		$ 69,885.23	
Rent and interest		47,734.93	117,620.16
Federal and state taxes on income—estimated			234,361.52
TOTAL CURRENT LIABILITIES			$1,248,368.68
LONG-TERM DEBT			
Notes payable:			
To bank—Note B:			
Notes maturing August 28, 1948 (Renewable as a term loan payable in twenty-five equal quarterly installments of $16,000.00)		$ 400,000.00	
Note—payable in quarterly installments of $18,000.00 (last installment—$24,000.00)	$ 546,000.00		
Less portion classified as current	72,000.00	474,000.00	
To others—notes maturing April 9, 1950—Note A		150,000.00	1,024,000.00
RESERVE			
For contingencies			148,000.00
DEFERRED CREDIT			
Deposit received in connection with proposed sale of lease—Note C			25,000.00
CAPITAL STOCK AND SURPLUS			
Capital stock (without par value):			
Authorized 150,000 shares			
Stated capital:			
Outstanding 138,500 shares	$ 1,688,550.00		
Subscribed 3,500 shares	66,500.00	$1,755,050.00	
Surplus—Note B:			
Capital surplus	$ 256,647.07		
Earned surplus	1,044,982.41	1,301,629.48	3,056,679.48
			$5,502,048.16

See notes to financial statements.

CONSOLIDATED PROFIT AND LOSS STATEMENT

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1947

Net sales		$17,496,500.04
Cost of goods sold		11,691,420.17
		$ 5,805,079.87
Selling, general and administrative expenses		5,238,151.70
		$ 566,928.17
Other income:		
Revenue from telephones, etc.	$ 26,725.36	
Gain on disposal of fixed assets—net	26,886.23	
Interest earned	3,137.93	
Miscellaneous	3,648,59	60,398.11
		$ 627,326.28
Other deductions:		
Provision for contingencies	$ 12,000.00	
Interest expense	26,258.27	38,258.27
PROFIT BEFORE FEDERAL TAXES ON INCOME		$ 589,068.01
Federal taxes on income—estimated:		
Provision for the year:		
Normal income tax and surtax	$ 220,800.00	
Additional provision for prior years—net	19,730.64	240,530.64
		$ 348,537.37
Refundable taxes on income of prior years arising from carry-back of unused excess profits credit—estimated		27,746.56
NET PROFIT		$ 376,283.93

See notes to financial statements.

CONSOLIDATED STATEMENT OF SURPLUS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1947

CAPITAL SURPLUS			
Balance at July 1, 1946, and June 30, 1947—no change during year			$ 256,647.07
EARNED SURPLUS			
Balance at July 1, 1946		$ 848,754.85	
Net profit for the year ended June 30, 1947		376,283.93	
		$1,225,038.78	
Deduct cash dividends:			
$.32½ a share paid October 1, 1946	$ 45,014.06		
$.32½ a share paid January 2, 1947	45,014.07		
$.32½ a share paid April 1, 1947	45,014.07		
$.32½ a share payable July 1, 1947	45,014.17	180,056.37	
BALANCE AT JUNE 30, 1947			1,044,982.41
TOTAL SURPLUS AT JUNE 30, 1947			$1,301,629.48

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1947

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Note A—The United States Treasury Bonds have been deposited with an escrow agent as collateral security for the notes payable to others.

Note B—The loan agreements provide, among other things, that the Company will maintain consolidated net current assets of not less than $1,500,000.00 and, will not declare or pay dividends, or make other distributions, in excess of consolidated net earnings after June 30, 1945. At June 30, 1947, earned surplus of $364,506.22 was not restricted under the foregoing terms.

Note C—The Company has entered into an agreement to sell, on July 15, 1949, for a consideration of $100,000.00, a lease covering certain premises, a part of which is occupied by one of the Company's stores. Pending such sale, the proposed purchaser has assumed the rights and obligations of the Company under the lease (under the terms of a sublease) and has granted to the Company a lease (to April 30, 1965) covering the portion of the premises now occupied and to be occupied by the Company. At June 30, 1947, the amount of $25,000.00 had been received as a deposit in connection with the foregoing agreement, and the amount of $62,500.00 (not included in the balance sheet) had been deposited in escrow by the proposed purchaser.

Note D—Provisions for depreciation and amortization aggregated $167,633.17 for the year.

Note E—The officers of the Company have no knowledge of any contingent liabilities other than pending claims for personal damages, etc., as to which, considering the nature of such claims and the amounts involved, the proceedings are not expected to result in any losses of material amounts to the Company or its subsidiaries.

GRAY DRUG STORES, INC.

Operating stores in the
following cities:

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OHIO

Akron
Alliance
Barberton
Bexley
Canton
Cleveland
Cleveland Heights
Columbus
East Cleveland
Fremont
Garfield Heights
Lakewood
Mansfield
Massillon
Painesville
Rocky River
Sandusky
South Euclid
Steubenville
Warren
Wooster
Youngstown

PENNSYLVANIA

Bellefonte
Bradford
Clearfield
Erie
Indiana
Kane
Kittanning
Lock Haven
Punxsutawney
Sayre
St. Mary's
Warren
Williamsport

NEW YORK

Corning
Cortland
Elmira
Fulton
Ithaca
Oneida